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# Restructuring of Pension Systems and Gender Arrangements in Germany and Great Britain

*Traute Meyer und Birgit Pfau-Effinger*

## Introduction

Over the last decades pension reforms have had to address the change of the gender arrangements in many European countries from the traditional housewife marriage towards modernised forms. This brings with it a need for a re-structuring of pensions away from housewife based towards individualised systems, which recognise periods of leave and part-time work of parents. The aim of this paper is to assess in what way such new demands were considered in pension reforms. We ask to what extent they survived alongside other pressures and what contradictions and new problems of gender inequality have developed in pension systems as a consequence. The paper compares Germany and Great Britain, societies with similar gender arrangements and modernisation paths, which at the same time represent different welfare regimes.

## 1. Welfare regimes and the modernisation of gender arrangements

According to Esping-Andersen (1990, 1999) liberal and conservative welfare regimes differ by their mode of intervention into the labour-market and the family. Conservative welfare regimes actively promote unpaid work in the family, and hinder the participation of women in employment. Liberal welfare states produce high levels of women's employment, enforced by low levels of public benefits and a high demand for services by the middle classes. Against this background one would expect a more family based type of gender arrangement in Germany and a more employment based type in the UK.

Esping-Andersen's regime types have been criticised for being gender insensitive (e.g. Lewis 1992; Pfau-Effinger 2004a) and family policy sensitive approaches

have been developed. Lewis (1992) classified welfare states as strong, moderate and weak male breadwinner states, depending on the degree of support given to the male breadwinner family model. In this typology, West Germany and Britain both came out as »strong« male breadwinner states.

Social policies have changed considerably during the last few decades and a substantial amount of effort has been invested in explaining the determinants and understanding the direction of change. However, up until recently comparatively little attention has been paid to the relationship between the modernisation of gender arrangements and welfare reform. As a consequence the societal conditions of policy transformation, the reasons for the similarities and differences in the development of social policies related to gender are not well understood. In that regard, the approaches that have been elaborated so far generally emphasize the strength of the Women's Movement as an important factor (e.g. Mósesdóttir 1999; Siim 2000). Its role as social actor is certainly relevant. However, we argue that if we want to understand the international differences in welfare state policies and their effects, the relationship between policy and societal and historical context needs more thorough attention. In particular the connection between cultural orientations, actual behaviour of women in relation to family and employment and social policies needs to be explored. In the following section we will therefore analyse the changes of the gender arrangements within the two different welfare regimes.

## 2. The modernisation of gender arrangements in Germany and Britain

Modern societies arrange the lives of women and men in typical ways. A society's gender arrangement consists of cultural values and models, of regulation of the main fields of women's and men's work through institutions, it is defined by the prime societal spheres in which childcare and elderly care take place and by what social groups inhabit these spheres as carers; furthermore the degree to which the relations of spouses within the family are based on dependency or autonomy determines the nature of the arrangement. An arrangement is the historical outcome of negotiations, conflicts and compromises of social actors with differing power and can be re-negotiated and changed by social actors. Because interests and cultural values differ between social groups, discrepancies and asynchronies within such an arrangement may develop (Pfau-Effinger 1998; 1999; 2004a; 2005).

The cultural values underlying the gender division of labour and the ways women and men organise their biographies, as well as the values regarding their

main sources of income and social security are central elements of the gender culture and of central significance for women's and men's old age. Modern welfare states reflect such dominant cultural values or may, under certain conditions, contribute to the emergence of new values (Pfau-Effinger 2005).

Despite different welfare state regimes the gender arrangements in Germany and Britain have similar central features and these have changed in similar ways in the second half of the 20th Century. This was mainly due to similarities of the cultural basis of both gender arrangements (Pfau-Effinger 2004b). The housewife marriage was the main cultural basis of the gender arrangement in the 1950s and 1960s. This model was based on the premise of a fundamental separation of the »public« and »private« spheres, and a corollary location for both genders: the husband's proper work is in the »public« sphere, while the housewife is responsible for the private household and childcare; her financial security exists on the basis of the husband's income. This model is linked with the cultural construction of »childhood«, according to which children need special care and comprehensive individual tutelage of the mother in the private household.

In both countries, this model was increasingly substituted by a modernised version based on a male breadwinner/part-time carer family. This model rests essentially on the vision of full integration of women and men into paid economic activity. At the same time, however it is expected that women as mothers may interrupt their economic activity for a few years, after which they combine employment and responsibility for childcare through part-time work, until their children are no longer considered requiring particular care. This new cultural model of the family contains some definitely contradictory elements, for example the financial dependence of a woman who cares for her children contradicts the high cultural esteem ascribed to financial autonomy. This problem has been reduced in part by welfare state policies, which have established new »social rights to provide care« (Knijn/Kremer 1997).

In accordance with these cultural transformations the structure of the gendered division of labour has changed considerably in Britain and Germany. The employment activity of mothers has broadened greatly, usually taking place as a sequence of employment interruptions and part-time work (Fagan et al. 1999). Britain and Germany are among those countries in the EU where the percentage of women who work part-time for family reasons is highest (24 per cent in UK/FRG). Part-time work in these countries generally means half-day or less. Thus, British and German households are the most likely in the EU to care for dependants at home rather than to use paid services (European Commission 1998: 12).

Despite these overriding similarities between Britain and Germany there are some country-specific differences, too. Throughout the 1970s and 1980s female employment rates in Britain were higher than in Germany (Meyer 1997), and atti-

tude data suggests that West-Germany's gender regime is still more traditional than Britain's (Jensen/Rathlev 2003). This is not true for East Germany where in contrast to the west a dual breadwinner/state care model has prevailed until today despite conservative German family policy based on the tradition of the West-German gender arrangement (Pfau-Effinger/Geissler 2002).

### 3. Criteria for the comparison of pension systems

In the following section, we will analyse how pension reforms in Britain and Germany, the dominant cultural models of the family, and women's behaviour between family and employment developed alongside each other since the 1950s. The purpose of this overview is to highlight phases of relative accord respectively discord of social trends and pension regimes. We assess the degree of pension modernisation by using the following criteria.

#### *De-commodification/personal independence*

Any pension system that does not protect citizens from poverty after retirement will render them very vulnerable and make them prone to dependency on others. Our first criterion is therefore to ask how protected the individual is against poverty in a system over time.

#### *Basis of entitlements*

The degree to which pension systems have modernised depends to a large extent on whether they are marriage based or individualised. Derived rights are therefore a traditional mode of rights accrual. Individualised systems can recognise employment, care responsibilities or citizenship status as basis of rights accrual.

#### *Structure of the pension system*

Pension systems can be based on different pillars: (a) public pensions, (b) employer co-financed, occupational pensions, and (c) on personal, entirely individual and market based pensions. Depending on the mix of these types there are different outcomes across countries for gender inequality.

*Less protected groups*

In order to assess the potential of a pension system to de-commodify or to support personal independence it is necessary to assess what impact it has on different groups in society. This is crucial in particular in so far as women, or particular groups of women, are more likely to be part of these disadvantaged groups.

## 3.1 Germany before 1999

Regarding *de-commodification and personal independence* in its earliest phase the pension system had a universally commodifying effect because of its very low level. Since 1957 it became much more decommodifying because the pension level employment – and through it marriage – generated rose substantially. This was even more so when low-level employment and later care work were recognised. Since the 1980s, once it became more common for wives to be employed, the system therefore protected the typical biographies of women well against poverty. This was achieved through a mixture of independent rights, sharing of the breadwinner's pension and the derived rights of widows'. Alternative life courses were risky, unless they were full-time, life-long employment.

Regarding the basis of entitlements the German pension system was never purely traditional, but had a hybrid structure because from the start, as it recognised marriage as well as employment of wives. Until the 1970s the system was one of the most modern German social protection programmes in comparison with other family policies, which actively directed women towards a traditional role (Moeller 1983: 219). The »strong breadwinner model« characterised in the comparative literature was therefore not fully developed during this phase. From the 1970s onwards until the most recent reform, the modern leg of the hybrid structure was continuously strengthened, through the improved recognition of part-time and low paid work and since the mid-1980s of care responsibilities. This notwithstanding, until the millennium it never fully modernised because it kept the widow's pension and never adopted a guaranteed minimum (Meyer 1998a, b). When we compare this modernisation path with women's typical employment choices over time, most interesting is the fact that until the late 1970s the German pension system was more modern than women's choices because despite the possibility to generate protection through employment as well as marriage, the majority of women became housewives.

Regarding *the structure of pensions* since 1957 the German public pillar was the most dominant part of the pension regime by far. The high replacement rates of

public pensions crowded out occupational and private provision (Bonoli 2003: 400). We therefore do not need to follow the development of these pillars.

What *groups were less protected*? Until the late 1970s there was still a poverty risk for working class women. As stated above, the majority of adult women only benefited from the decommodifying reforms of 1957 and of 1972 as dependants of their husbands, whose pension was determined by the male employment career and status. Because a minimum pension did not exist, especially working class widows and possibly couples continued to be at risk. However, as soon as it became more common for married women to work part-time in the late 1970s and 1980s, they benefited from higher entitlements. This was even truer after the introduction of care-related rights in 1985 and throughout the 1990s.

### 3.2 Germany since 1999

Upon winning the elections 1998, the Red-Green government started to discuss the reform of the pension system and in 2001 they passed a pension reform, which initiated a »paradigm-shift«. The Pension Reform Act 2001 reduced the public pension level for all and for the first time introduced a voluntary private pension, subsidised by the state; in addition access to a means-tested income for pensioners became easier. The change was triggered by the financial crisis of the pension fund, and based on a new type of discourse, which stressed individual self reliance and intergenerational justice (Anderson/Meyer 2004; Hinrichs 2003).

As a consequence of the general cuts in public pensions, the level of *de-commodification* in the pension system has decreased.

Regarding the *basis for entitlement*, derived rights of wives were weakened further, and the extension of individual entitlements based on care continued.

Regarding the *structures of the pension system*, the public pillar was weakened and occupational and personal pensions were strengthened.

Regarding the *social groups which are particularly vulnerable*, the reform affects all those who are on low-income and in non-standard employment, and who do not pay into a private scheme. They are likely to be dependent on the means-tested income.

The extension of pension entitlements based on time devoted to care since the mid-1980s and the means-tested income are steps towards a de-familialisation and individualisation of pensions for women, and adapt pensions to modernised female biographies. The lowering of the degree of decommodification in public pensions and the introduction of market elements as a new pillar are contradictory to such efforts, because the market logic is much less sensitive to problems of social injustice.

### 3.3 UK until 1997

Regarding *de-commodification and personal independence* the first pillar of the British pension regime until the mid-1970s only provided a very low level of de-commodification and throughout the 1950s the second pillar was underdeveloped. Poverty in retirement was therefore the long-term outcome for many. In addition, married women were actively discouraged from seeking work; personal dependency and poverty after retirement was thus enforced. Between 1960 and 1975 the situation changed for some because occupational pensions expanded. Through higher occupational pension of breadwinners derived rights for wives were also enhanced. However, personal dependency was the price paid for this improvement. The regulations generated the results desired by the policy makers of the time. At the beginning of the 1970s 75 percent of women did not pay in their own social insurance contributions (Land 1985: 56). Other than the German the British pension system in its early years therefore was typical for a »strong breadwinner model«. Between 1975 and 1986 the system was decommodifying and based on personal independence because the reforms of the first pillar made up for the selectiveness of the second and it gave the typical female biography greater protection (Ginn 2001: 6). Since 1986 the poverty risk and personal dependence increased again because of the decline of the first pillar. The trend was somewhat counterbalanced since the early 1990s by the improved access of part-time workers to occupational schemes through EU-legislation.

Regarding the *basis of entitlements* between 1945 and 1975 the regime was traditional because it assumed that adult women would accrue rights through marriage alone; in contrast to Germany this regime outlived social change. Its structure remained intact until the mid-1970s, when the real married women had long started to seek employment, regardless of social policy's directives.

1975 transformed the first pillar from a traditional to a hybrid scheme, not only marriage but also caring responsibilities and employment were from now on recognised for pension right accumulation. This brought the public regime in line with women's lives. Occupational pensions meanwhile continued with their benefits for widows and continued not to admit part-timers as members and therefore retained their traditional outlook. The decline of the earnings-related part of the first pillar in 1986 did not change the structure but the quality of the hybrid system, henceforth part-time work received much less favourable treatment and the SERPS widow's pension was halved. The modernisation of the second pillar came in the 1990s with improved recognition of women's typical employment patterns by occupational schemes. By the end of the 1990s the basis for rights accrual of the main pillars of the British regime therefore was modern.



Regarding *the structure of pensions*, the expansion of occupational pensions was always supported by government and fuelled by the low level of the first pillar. Third pillar pensions remain weak until today (DWP 2004: 58; GAD 2003: 9).

Regarding *groups less protected* by the British regime – with the exception of the time between 1975 and 1986 – insufficiently protected all those without access to a second pillar pension, either directly or through marriage. Thus people with instable employment biographies, in low qualified positions in the private sector and in small businesses and their dependants faced high poverty risks.

### 3.4 UK since 1997

Since 1997 a number of reforms to the pension system have been introduced by the Labour government that transform the way pension rights are accrued (Ginn 2003); in addition, defined benefits schemes in the private sector have declined (IDS 2003).

Regarding *de-commodification and personal independence* women can now rely on the newly introduced means-tested pension as last resort, despite its shortcomings it protects against the increased risk more individualised women face. However, for those on higher incomes working in the private sector this may only be a small consolation, as they as well as their partners will no longer have a defined benefit scheme, which makes women in particular more likely candidates for the means-test, because of their lower income. In contrast, women working in the public sector benefit from Labour's much increased investment in public services since 1997, which meant an expansion of jobs, including an increased number of people in privileged salary-related schemes, many of whom are women (GAD 2003: 18). As public sector workers women can therefore at least maintain, if not improve their status.

Concerning the *structuring of the pension system*, the reforms have contributed to a preliminary stabilisation of the first and destabilisation of the second pillar of the pension regime. The changes to public pensions are in line with the higher commitment of Left governments to poverty-avoidance. In contrast, the collapse of the second pillar can hardly have been intended, given New Labour's commitment to them (CM4179).

Regarding the *basis of entitlements* the system retained its modern nature, its first pillar became more sensitive towards care work and low pay, while the opposite is true for the second pillar. Thus, the *structure of pensions* has changed. Regarding *groups less protected* the regime in its current form for the first time gives a guaranteed minimum level of protection below no one is allowed to fall, at the same time the risk to reach this level has increased for many.

#### 4. Conclusions

The aim of this paper was to analyse how far the changes in the gender arrangement have been reflected in pension reforms in Britain and Germany and to what extent women-friendly modernisation claims have been able to survive amongst other pressures.

With the most recent reforms we see some convergence. On the one hand both governments have for the first time introduced a means-tested income for pensioners. While a second-best solution only, it is an insurance against poverty that may prove to be particularly relevant for women's more risky biographies. On the other hand, both governments have cut down the earnings-related element of the pension regime, and thus its more generous part. In Germany this change was intended, the introduction of the private tier and reduction of the first was a deliberate strategy to cut long-term expenses and make pension finances sustainable. In the UK, the decline of the salary-related schemes in the private sector, even though fostered by government regulatory policies and cutting of tax rebates, was not intended. On the contrary, government wanted to make the system more protective. The outcome is that in both countries citizens increasingly have to rely on either the means-tested minimum or money purchase schemes; social risks have become more individualised and all citizens with less than firm ties to the labour market face greater risks.

The modernisation of gender arrangements thus has been accompanied by modernising steps in pension policy which acknowledged care times and part-time work better. However, had there not been the introduction of minimum thresholds, the positive effects of these modernising steps would not have been able to offset the risks mothers and part-time workers faced because of the general cuts to the first pillar in both countries. The impact of gendered modernisation is sidelined as public pension systems reduce their earnings-related entitlements to contain spending. The minimum is becoming more reliable as everything above is left to individual employment performance and market returns.

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